Why Enbridge Stock Price Lagged the TSX by 1.7% in March

Description

The Enbridge stock price was already trading at value levels before the latest crisis. In March, the coronavirus crisis and the oil price war were the last straws and the energy sector fell to its knees. Enbridge stock price once again lagged the **TSX Index**. While it wasn't by much, it came at a time when Enbridge was finally gaining some ground.

Why did Enbridge stock price lag the TSX in March — and what conclusions can we make regarding its future?

Enbridge stock price underperformed the TSX as oil prices tanked

In March, the news was quite bad for the energy sector. Oil prices sunk to 20-year lows and two things happened. First, the coronavirus dealt a blow to economic activity. Second, an oil price war broke out between Saudi Arabia and Russia. All of this culminated in oil prices falling by more than 52% in March.

There was also a big decline in Enbridge stock price – or almost. And the shocks kept coming. Enbridge stock price has fallen more than 30% since February highs and continues to fall.

Enbridge stock price lagged the TSX despite its defensive positioning

With this, we can say that the market panicked. The knee-jerk reaction was to take down any and all energy-related stocks. But Enbridge is not as vulnerable to movements in the oil price as investors seem to believe.

Investors are punishing even high-quality, defensive stocks like Enbridge, which is not appropriate treatment, as not all energy stocks are equal. Some of them are better able to deal with this catastrophic environment, and Enbridge is a prime example of this.

Enbridge's most significant segment is its liquids pipelines segment, representing 53% of 2019 EBITDA. This revenue is mostly covered by low-risk contracts. These are contracts that mean that Enbridge stock has minimal direct commodity exposure. These "take or pay" and "cost of service" contracts provide high-quality, low risk, utility-like characteristics.

Furthermore, almost 90% of revenue in this segment comes from refiners and integrated producers. By definition, these companies have less commodity exposure. Counterparty risk is therefore not a big issue for Enbridge.

The gas transmission segment is also looking good. It represents 29% of 2019 EBITDA. It is largely sheltered from commodity price swings as 93% of EBITDA is contracted or cost-of-service regulated. There is therefore limited volume exposure, and 91% of customers are investment grade.

It is a brutal environment for the energy sector overall. But Enbridge's business has made the company largely sheltered from the storm. Enbridge stock price screams opportunity because of this.

Foolish bottom line

Today, Enbridge stock valuation is at the lowest level in 15 years. The company is self-funded with a well-covered dividend. The stock provides investors with a very generous 8.18% dividend yield.

In the last few years, Enbridge has worked down its debt levels and the company has ample liquidity. This defensive stock is also an undervalued stock.

Enbridge's assets are a key in delivering energy to keep the country going. The 2020 fall of the Enbridge stock price has created an opportunity.

The stock is now an extremely attractive investment opportunity that I would recommend long-term investors seriously consider buying.

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